

SUBCOMMITTEE NO. 1 on Education



Subcommittee No. 1

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(Outcomes)

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ISSUE 1: Alternative COLA Calculations for K-12 Schools and Community Colleges

DESCRIPTION: The current index used to calculate cost-of-living adjustments (COLAs) for K-12 schools and community colleges is the state and local government price deflator. Beginning in 2008-09, the Governor proposes to switch the current COLA index to a modified version of the California Consumer Price Index for Wage Earners and Clerical Workers. The LAO agrees with the need for an alternative, but recommends modifying the current K-14 COLA index to focus more heavily on projected compensation cost increases.

BACKGROUND: The state budget provides annual COLAs to most Proposition 98 K-12 and community college programs to offset the costs of inflation. For most K-12 programs (all revenue limit programs and most categorical programs), COLAs are statutorily required. According to the LAO, COLAs are not statutorily provided for community colleges, but are typically provided for apportionments (general purpose funds) and some categorical programs based upon the K-12 COLA rate. In 2007-08, the K-12 COLA rate was budgeted at 4.5 percent, which resulted in **\$2.1 billion** in new ongoing funds for K-12 schools and **\$263.7 million** for community colleges.

Current COLA Index. The current index used to calculate COLA for K-12 education and community colleges is the state and local government price deflator (GDPSL). This index is calculated by the federal government to reflect changes in costs experienced by state and local governments. The GDPSL includes the following components, summarized by the LAO:

- **Employee Compensation** - salaries and benefits for government employees.
- **Services** - utilities and contracted services, such as financial, professional, and business services.
- **Structures/Gross Investments** - capital outlay, construction and deferred maintenance.
- **Durable Goods** - books, tools, and equipment.
- **Nondurable Goods** - gasoline, office supplies, and food.

GOVERNOR'S BUDGET: The Governor proposes to switch the COLA index from the current GDPSL to a modified version of the California Consumer Price Index for Wage Earners and Clerical Workers. The Governor proposes to make this change beginning in 2008-09. The Governor's January budget estimated the COLA rate under current law (GDPSL) at 4.94 percent; under the Governor's alternative, the COLA rate is estimated at 3.65 percent.

LAO ANALYSIS:

Problems with Existing K-12 COLA Index. The LAO has two major concerns with the existing COLA index (GDPSL):

1. **The current COLA index does not reflect the typical expenses for K-12 schools.** Schools typically spend about 85 percent of their annual budget on employee salaries and benefits. However, employee compensation comprises approximately 56 percent of the current COLA index. In contrast, the current index provides greater weight for physical structures (construction and deferred maintenance) and durable goods (books, tools, and equipment) than are typical for K-12 schools. (As a reminder: school construction costs are financed at the state level through bond funds, which have their own inflation adjustments.)

Current COLA Not Reflective of Typical School Expenses		
	Share of Average School Expenditures	"Weight" in K-12 COLA Calculation
Employee compensation	83%	56%
Services and nondurable goods	14	35
Structures and durable goods	3	17
Income ^a	—	-8
Totals	100%	100%
^a Some government agencies receive income from activities such as charging tuition or fees. This income offsets costs in other areas.		

2. **Current Index Out of Sync with Employee Compensation; Two Components of Current Index Fueling Recent Growth.** The LAO has analyzed existing K-12 COLA with a particular focus on those components that cause the index to grow. The LAO notes that the increased amounts that districts are paying for employee compensation has not matched the existing COLA rate of growth inherent in the existing COLA calculation. As indicated in the figure below, the growth rate for employee compensation was 3.3 percent in 2004-05, while the K-12 COLA rate was 2.4 percent. In that year, the K-12 COLA did not keep pace with employee compensation costs. In contrast, in 2006-07 the K-12 COLA was 5.9 percent, while employee compensation grew by 3.9 percent.

The K-12 Cost-of-Living Adjustment (COLA) and Its Underlying Components					
Annual Growth Rates	2004-05	2005-06	2006-07	2007-08	2008-09^a Estimate
K-12 COLA	2.4%	4.2%	5.9%	4.5%	5.4%
Underlying Components					
Employee compensation	3.3%	3.0%	3.9%	4.1%	4.3%
Services	2.6	3.7	5.4	3.8	4.2
Structures	2.5	6.6	7.7	6.5	5.9
Nondurable goods	4.4	11.8	14.0	6.0	9.9
^a Based on LAO projections. The Governor's budget projected a K-12 COLA of 4.9 percent for 2008-09, but recently released fourth quarter 2007 data indicate the annual COLA rate likely will be higher.					

As indicated in the chart, the K-12 COLA nearly doubled between 2004-05 and 2007-08. This increase was fueled by significant increases in the rates for structures and durable goods. Specifically, growth rates for structures and durable goods more than doubled between 2004-05 and 2007-08 -- even though expenses of this nature comprise a small share of K-12 school expenditures. While employee compensation costs, which comprise 85 percent of school expenses, grew overall during this period, they grew at a much smaller rate.

Concerns with Governor's Proposal. The LAO believes the new COLA index proposed by the Governor focuses on cost increases experienced by school employees (at a consumer level) rather than those of the school district (as the employer). Specifically:

- **The CPI Measures Changes in Consumer Prices.** The United States Consumer Price Index (CPI) measures changes in the prices consumers in urban areas pay for a fixed "market basket" of goods and services. The CPI-W, proposed by the Governor, is a subset of the CPI that focuses on spending for urban consumers who are employed in clerical or wage occupations.
- **Administration's Proposal Based on CA CPI-W.** The Governor's proposed change for the K-14 COLA would use an unweighted version of the CA CPI-W reflecting consumer prices in California's two largest urban areas—Los Angeles and San Francisco. State economists use data from the two regions to calculate a state-specific urban price index, known as the CA CPI-W.
- **Administration Believes CA CPI-W Better Measure of School Costs.** Because employee salaries are the largest expenditure category for both K-12 school districts and community colleges, the Administration suggests *employees'* inflationary pressures (increases in their own costs of living) are what drive most of *schools'* inflationary pressures. Therefore, according to the Administration, a measure reflecting employees' consumer costs is a more appropriate COLA than the GDPSL.
- **Proposed Index Does Not Reflect Employer Cost Pressures.** The CA CPI-W focuses exclusively on consumer costs, therefore it may be influenced by cost increases that have no bearing on schools' operational expenses. For example, housing costs make up around 43 percent of the CPI-W market basket. While changes in housing and rental prices have a large effect on the CA CPI-W, these changes have little *direct* effect on school costs. In contrast, the CA CPI-W does not include certain employer-driven costs schools might incur, such as increased costs of employee benefits (health care and retirement), which make up one-fifth of the average school's budget.

LAO ALTERNATIVE: The LAO recommends that the Legislature reject the Administration's proposal. Instead, the LAO recommends the Legislature modify the current K-14 COLA index (GDPSL) to focus on employee compensation cost components. The LAO recommends that this change take effect in 2008-09. According to the LAO, this alternative is simple and transparent and reflects more accurately the

actual cost increases that K-12 schools and community colleges actually face. Specifically, the LAO raises the following issues in support of their proposal:

- **Employee Compensation Component Most Reflective of School Costs;**
- **Other Costs Make Up Relatively Small Share of School Budgets;**
- **National Index Provides More Independent Reflection of Cost Increases;**
- **Maintain Methodology and Timing of Current Index.**

LAO Cost Comparisons COLA Calculation Options. In comparing the costs of the current COLA calculation and the two alternative proposals, the LAO makes the following findings:

- **Costs of Existing COLA Rate Higher Than Alternatives in Recent Years.** Over the past four years (2004–05 through 2007–08), the state paid approximately \$8.3 billion to fund COLAs for K–14 education. Had the K–12 COLA been calculated over the same time period using the Governor's proposed index or our alternative, the costs would have been less—\$5.4 billion or \$6.9 billion, respectively. This is because the existing COLA rate has been notably higher than the two proposed alternatives in recent years.
- **Existing COLA Rate Expected to Be High Again in 2008-09.** As indicated below, the LAO projects the current law COLA (GDPSL) will continue to be higher than the Governor's or LAO alternatives 2008-09. The figure shows that providing COLAs at the current statutory rate of 5.4 percent to the K–14 programs that typically receive them would cost the state approximately \$3 billion in 2008-09. In contrast, estimates are lower for both the Governor's proposed index and our alternative—4.4 percent (revised) and 4.3 percent, respectively—each resulting in a cost of around \$2.4 billion.

Comparing 2008-09 COLA Costs Under Each Option			
<i>(Dollars in Millions)</i>			
	Current Law	Governor's Proposal	LAO Alternative
COLA Rate^a	5.43%	4.40%	4.27%
COLA Costs:			
K-12 revenue limits ^b	\$1,943	\$1,574	\$1,528
K-12 categoricals ^c	729	591	573
Community colleges ^d	341	276	268
Totals	\$3,013	\$2,441	\$2,369
^a Based on updated data. The Governor's budget estimated a current law K-12 COLA rate of 4.94 percent and CA CPI-W rate of 3.65 percent. ^b Includes revenue limits for both K-12 districts and county offices of education. ^c Cost for K-12 programs that typically receive an annual COLA. ^d Includes apportionments and categoricals that typically receive a COLA.			

- **Because COLA Rate Likely Will Not Matter in 2008-09, the Time Is Right to Make a Change.** Neither the Governor's proposal to base the K-12 COLA on the CA CPI-W nor the LAO alternative is likely to have an immediate effect in the budget year. This is because K-14 education programs may not receive a COLA in 2008-09. (Neither the Governor's proposed budget nor the LAO alternative include COLAs.) As a result, the budget year seems the ideal time to switch to a better measure.

COMMENTS/RECOMMENDATIONS:

Agreement on Concerns with Existing COLA Calculation. Both the Governor and LAO have concerns with the existing K-12 COLA Calculation (GDPSL) because it is heavily weighted by costs that do not affect schools and community colleges.

Implementation of New COLA Calculation. Both the Governor and LAO recommend that their alternative to the current COLA index take effect in 2008-09. The LAO suggests this is an ideal time for a change since a COLA may not be provided to K-12 schools and community colleges in 2008-09.

Changes to COLA Calculations Would Affect Revenue Limit Deficit Factor. The Governor does not propose to provide a COLA for K-12 programs in 2008-09, but does propose to create a deficit factor for K-12 revenue limits. In this way, revenue limit funding levels would be restored in the future. The Legislature is not required to create a deficit factor for revenue limits when no COLA is provided. However, if the Legislature chooses to provide a deficit factor, changes to the existing K-12 COLA calculation would have an effect on the costs of the deficit factor. Under the current K-12 COLA, the revenue limit deficit factor would reflect \$1.9 billion in costs. The deficit factor would reflect \$1.6 billion under the Governor's alternative and \$1.5 billion under the LAO alternative COLA calculation.

QUESTIONS:

1. *What is the Administration's view of the LAO's alternative COLA proposal, which would modify the current K-12 COLA index to focus on employee compensation?*

ISSUE 2: Federal Funds Overview

DESCRIPTION: According to the latest reports from the federal government, California is estimated to receive **\$6.4 billion** in federal funds for K-12 education in 2008-09. The California Department of Education (CDE) will provide an overview on federal funding for our state.

BACKGROUND: The LAO has prepared the following table that reflects federal funds estimates from the U.S. Department of Education (USDE) to California for FFY 2008, which coincides with the state 2008-09 fiscal year.

Federal Funding for K-12 Education California's Allocation (In Millions)	Estimated 2007-08	Budgeted 2008-09	Change From 2007-08	
			Amount	Percent
No Child Left Behind (NCLB) Programs				
Title I				
Title I Basic	\$1,643.5	\$1,696.4	\$52.9	3.2%
School Improvement	16.6	61.8	45.2	272.3
Reading First	137.0	49.0	-88.0	-64.2
Even Start	9.5	7.2	-2.3	-24.2
Migrant	126.9	29.0	2.1	1.7
Neglected and Delinquent	2.5	2.5	—	—
Impact Aid	53.6	65.2	11.6	21.6
Advanced Placement	3.1	3.1	—	—
Title II				
Improving Teacher Quality	\$331.2	\$333.4	\$2.2	0.7%
Mathematics and Science Partnerships	23.6	21.9	-1.7	-7.2
Educational Technology	32.8	30.5	-2.3	-7.0
Title III				
Language Acquisition	\$169.1	\$177.1	\$8.0	4.7%
Title IV				
Safe and Drug-Free Schools	\$41.5	\$35.2	-\$6.3	-15.2%
21st Century After School	127.7	132.0	4.3	3.4
Title V				
State Grants for Innovative Programs	\$12.1	—	-\$12.1	-100.0%
Title VI				
State Assessments	\$33.4	\$33.4	—	—
Rural and Low-Income Schools	1.2	1.3	\$0.1	8.3%
Small, Rural School Achievement	6.0	6.1	0.1	1.7
Non-NCLB Programs				
Homeless Children and Youth	\$7.7	\$7.6	-\$0.1	-1.3%
Cal-Serve/Service America	1.8	1.8	—	—
Special Education	1,242.9	1,257.8	14.9	1.2
Vocational and Adult Education	140.8	137.4	-3.4	-2.4
Charter Schools	32.6	48.0	15.4	47.2
Child Nutrition	1,647.7	1,644.8	-2.9	-0.2
Child Development	557.3	559.7	2.4	0.4
Totals	\$6,402.1	\$6,442.2	\$40.1	0.6%

The amounts above reflect FFY 2008 funding contained in the Labor, HHS, and Education Appropriations Bill signed by the President on December 26, 2007 (P.L. 110-161). Attachment A summarizes federal grants for the FFY 2001-2007, provided by the USDE on March 6, 2008. The Governor's January budget does not reflect these amounts since federal estimates for the final appropriations measure for federal fiscal year (FFY) 2008 were not available until March.

While federal funds to California grew between \$60 million and \$154 million annually between FFY 2001 and 2005, this trend reversed in FFY 2006 and FFY 2007 when funds for our state dropped by approximately **\$154 million and \$73 million respectively**.

In FFY 2008, federal funds are estimated to *increase* again -- by \$40.1 million overall above the FFY 2007 level. The largest *increases* include Title I Basic Grants – the largest federal grant program for our state – that will grow by **\$52.9 million** (3.2 percent). In addition, the new School Improvement program will provide **\$45.2 million** in additional funding for NCLB accountability activities in California, above the **\$16.6 million** provided for the first year of funding in 2007-08. Charter School funding will increase by **\$15.4 million** (47.2 percent) and Special Education will grow by **\$14.9 million** (1.2 percent). In sharp contrast, federal funding for the Reading First program will *decrease* by **\$88.0 million** (64.2 percent).

COMMENTS/RECOMMENDATIONS: Staff has identified a number of federal programs that warrant further discussion by the Subcommittee. These programs include:

- Title I -- Set-Aside Funds & School Improvement Grants
- Reading First
- Title II – Teacher Quality Grants
- Migrant Education and Title III English Language Instruction
- Special Education
- Title VI -Student Assessment

Some of these programs are covered later in the Subcommittee agenda today--Title I – Set-Aside Funds and School Improvement Grants and Title VI – Student Assessments. The remaining federal programs listed above will be added to the April 29th hearing agenda because CDE has not been able to provide final data on program expenditures and carryover funds available for some of these programs. This information is critical to making final decisions for federal programs, which allows the Legislature to maximize the use of federal funds and to avoid the loss of federal funds through reversion.

CDE is currently working to determine the status of carryover funding for the Title II program, Title III English Language Instruction program, and the Special Education program. Staff is particularly interested in the status of carryover funds for Title III and Special Education programs that were vetoed by the Governor in 2007-08. These funds have not been accounted for by CDE. A partial list of these program vetoes is provided below:

Title III –English Language Instruction

- **Technical Assistance and Monitoring of English Learners in Alternative Schools, Courts Schools and Division of Juvenile Justice Schools.** The budget provided \$1,600,000 and 4.0 positions to CDE to monitor and provide technical assistance to alternative, county court, and Division of Juvenile Justice schools serving English learners. These one-time funds would be provided over a three-year period and intended to build local capacity for better serving youth being shifted from DJJ to county programs.
- **English Learner Best Practices Pilot Program.** The budget provided \$1,000,000 for an evaluation of the English Learner Best Practice Pilot Program established pursuant to the requirements of Chapter 561, Statutes of 2006 (AB 2117). The 2006-07 budget provided \$20 million in one-time funds for the program. The Governor reduced funding for the evaluation by \$500,000.
- **Effective Communication with Non-English Speaking Parents.** The budget provided \$50,000 for an evaluation to ensure that LEAs are employing methods to ensure effective and timely oral communication with non-English-speaking parents.

Special Education Funds:

- **Technical Assistance and Monitoring of Students with Disabilities in Alternative Schools, Courts Schools and Division of Juvenile Justice Schools.** The budget eliminated a \$1,050,000 legislative augmentation to expand special education focused monitoring and technical assistance services in alternative, county court, and Division of Juvenile Justice schools.
- **Best Practices for Students with Specific Learning Disabilities.** The budget deleted a \$400,000 legislative augmentation to create an advisory committee and perform a best practices study that would assist local education agencies in implementing evidence-based practices intended to assist students with specific learning disabilities to improve academically.
- **Independent Evaluation of the Dispute Resolution Services.** The budget eliminated a \$150,000 legislative augmentation to provide an independent evaluation of the special education dispute resolution services provided by the Office of Administrative Hearings.

ISSUE 3: Federal Funds Reporting –LAO Proposal

DESCRIPTION: The LAO recommends that the Legislature require CDE to report annually on federal funding. This action would promote transparency and improve the timeliness of information and would allow the Legislature to consider all options and priorities when making budget and program decisions.

BACKGROUND: The federal government appropriates funds to California for a variety of programs—each with unique requirements on how the funds can be expended and when they will revert if unspent. Currently, CDE is responsible for tracking federal funds appropriations, expenditures, and carryover by year and by program. The CDE is also responsible for adhering to the federal requirements for each “pot” of funding. For each of the programs, CDE needs to track prior- and current-year carryovers as well as budget appropriations. The CDE provides information about federal funds to the Department of Finance and Legislature upon request.

LAO ANALYSIS: The LAO makes a number of findings about federal funding information available to the Legislature for purposes of developing the annual budget for K-12 education:

Current Approach Results in Delays, Inconsistencies, and Extra Administrative Burden. Because only CDE officially tracks the many pots of federal funds, others involved in the K–12 budget process must rely on CDE for updates on available monies. Without a regular reporting cycle for this information, all other interested parties must make ad hoc requests for information. This situation puts a burden on CDE as it often answers the same question multiple times each year. The lack of a regular reporting cycle also results in delays and inconsistency in information for various decision makers (who may ask for information at different times and then have trouble reconciling different answers).

Lack of Transparency Results in Less Effective Decision Making. Without formal dissemination of consistent information, all decision makers do not have a complete picture of information as they begin budget deliberations. For example, only CDE knows the carryover balances for each program. Occasionally, this lack of transparency about available carryover has resulted in federal funds going unspent and reverting to the federal government.

LAO RECOMMENDATIONS: The LAO recommends that the California Department of Education provide the Administration and the Legislature with two annual reports on federal funding—a three-year budget summary and a summary of carryover balances. To maximize efficient use of federal funds, we recommend both reports be produced prior to annual budget deliberations. Specifically, these two new reports include:

Report on Actual Expenditures and Budgeted Appropriations Would Help Inform Budget Process Up Front. The LAO recommends that the Legislature require CDE to provide a three-year picture of federal funds, by program, no later than January 15 of

each year. For each type of activity (state operations, state level activity, local assistance, or capital outlay), this budget summary should include: (1) actual expenditures for the prior year, (2) a revised estimate of current-year expenditures, and (3) the budget-year appropriation. Although too late to be helpful to the Administration in preparing its budget proposal, the January 15 deadline would help ensure more accurate information is disseminated—as the federal budget should be enacted and information distributed to the states by that time. In addition, the January 15 deadline would ensure the Legislature has timely information before beginning its budget deliberations. This deadline also allows for timely current-year corrections.

Report on Available Carryover Would Enable Timely Response and Minimize Reversions. The LAO recommends an annual report of carryover amounts and potential reversion dates for each pot of federal funds (by program and fiscal year) be provided by November 1 of each year. We believe this report could be provided earlier than the three-year budget summary report because it does not rely on recent passage of the federal budget. The somewhat earlier deadline for this report would benefit the Administration in its budget development as well as the Legislature in its budget deliberations. The deadline would also facilitate timely actions to deal with monies in danger of reverting.

COMMENTS/RECOMMENDATION:

Staff supports the LAO's proposal to require annual reporting by CDE on federal funds available for appropriation. As described by the LAO, these reports would reduce overall workload for CDE, provide more consistent information to all parties, better inform decision makers by helping them consider all budget and program options, and allow for timely corrective action to avoid reverting federal dollars.

Staff recommends that the Subcommittee request the LAO to work with staff from CDE, DOF, and the Legislature on the development of specific statutory language for their proposal. Staff further recommends that the Subcommittee consider this language at their April 29th hearing.

ISSUE 4: April Finance Letters – Federal Funds – State Operations and Local Assistance Items (Consent Items)

DESCRIPTION: The Department of Finance (DOF) proposes the following changes to the Governor’s January budget for various federally funded state operations and local assistance programs budgeted within the California Department of Education. These revisions are proposed by the April 1st budget amendment letter (April Letter) from the Department of Finance. These issues are considered technical adjustments to update budget appropriation levels so they match the latest federal estimates and utilize funds consistent with current programs and policies.

1. Items 6110-001-0001 and 6110-001-0890, State Operations, Translation of Parental Notification Documents (Issue 406). It is requested that this item be increased by \$385,000 federal Title III carryover funds. The carryover is a result of a delay in establishing a prioritized list of documents to translate. The State Department of Education (department) will use these funds to complete the initial translations authorized with one-time funds in fiscal year 2007-08. Local educational agencies (LEAs) will have access to the documents through an online clearinghouse.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, \$385,000 is available to the State Department of Education on a one-time basis for the cost of translating into languages other than English state prototype documents. The department shall contract with appropriate translators or translator services to translate these documents. The department shall post all documents translated as a result of the appropriation referenced in this provision on its existing Internet-based electronic clearinghouse system of state and locally-translated parental notification documents.

2. Items 6110-001-0001 and 6110-001-0890, State Operations, Education Technology Administration (Issue 407). It is requested that language in this item be amended to conform with a reduction of \$404,000 Federal Trust Fund for administration of the Education Technology Program. The Governor’s Budget reduced federal funds for state operations by \$11.0 million because the base appropriation level exceeded the amount of federal funds available to the state. Included within the reduction was \$404,000 that should have been earmarked for administration. Therefore, only a language change is necessary.

It is requested that Provision 7 of Item 6110-001-0890 be amended as follows to conform to this action:

“7. Of the funds appropriated in this item, ~~\$1,470,000~~ \$1,066,000 shall be used for administration of the Enhancing Education Through Technology Grant Program. Of this amount:

(a) \$150,000 is available only for contracted technical support and evaluation services.”

3. Item 6110-102-0890, Local Assistance, Learn and Serve America Program (Issue 164). It is requested that this item be ~~decreased~~ increased by ~~\$10,000~~ \$11,000 Federal Trust Fund to align the appropriation for the Learn and Serve America Program with available federal funds. The program provides grant funding to K-12 schools, community-based organizations, and higher education institutions to facilitate service-learning projects. These funds support school-community partnerships, training and technical assistance resources, as well as the collection and dissemination of research, effective practices, curricula, and service learning program models.

4. Item 6110-103-0890, Local Assistance, Robert C. Byrd Honors Scholarship Program (Issues 646 and 647). It is requested that this item be decreased by \$161,000 Federal Trust Fund, which includes a decrease of \$174,000 to align the appropriation with available federal funds and an increase of \$13,000 to reflect the availability of one-time carryover funds. These funds will be used to promote student excellence and achievement by awarding higher education scholarships on the basis of academic merit to students who show promise of continued academic excellence.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, \$13,000 is provided in one-time carryover funds to support the existing program.

5. Item 6110-119-0890, Local Assistance, Neglected and Delinquent Children Program (Issue 416). It is requested that this item be decreased by \$322,000 federal Title I Neglected and Delinquent Children funds to align the appropriation with available federal funds. LEAs will use these funds for services to educate neglected and delinquent or incarcerated youth.

6. Item 6110-136-0890, Local Assistance, Title I Basic Program, McKinney-Vento Homeless Children Education Program, and Title I Even Start Program (Issues 412, 413, and 414).

It is also requested that this item be increased by \$34,459,000 federal Title I Basic Program funds, which includes an increase of \$15,207,000 to align the appropriation with available federal funds and an increase of \$19,252,000 to reflect the availability of one-time carryover funds. LEAs will use these funds for services to assist economically-disadvantaged students. (Issue 412)

It is also requested that this item be increased by \$1,215,000 Title I McKinney-Vento Homeless Children Education funds, which includes a decrease of \$118,000 to align the appropriation with available federal funds and an increase of \$1,333,000 to reflect the availability of one-time carryover funds. LEAs will use these funds to provide services to homeless students. (Issue 413)

It is also requested that this item be decreased by \$3,007,000 Title I Even Start funds, which includes a decrease of \$4,507,000 to align the appropriation with available federal funds and an increase of \$1.5 million to reflect the availability of one-time carryover funds. LEAs will use these funds for services to improve the educational opportunities of low-income families and for a unified literacy program that integrates early childhood education and parenting education. (Issue 414)

It is also requested that provisional language be added to require the department to allocate all carryover funds in this item on a per-pupil basis by October 1, 2008. The purpose is to allocate funding in a timely manner so that LEAs can use the funds effectively and promptly to improve student performance for these vulnerable populations.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in Schedule (1), \$19,252,000 is provided in one-time carryover funds to support the existing program.

X. Of the funds appropriated in Schedule (2), \$1,333,000 is provided in one-time carryover funds to support the existing program.

X. Of the funds appropriated in Schedule (4), \$1,500,000 is provided in one-time carryover funds to support the existing program.

~~X. The State Department of Education shall allocate all carryover funds in this item on a per pupil basis by October 1, 2008, to all eligible service providers. Local educational agencies shall use these funds to supplement, but not supplant, one-time base services authorized by law.~~

7. Item 6110-137-0890, Local Assistance, Rural/Low-Income School Program (Issue 415). It is requested that this item be increased by \$152,000 federal Title VI Rural/Low-Income School funds, which includes an increase of \$85,000 to align the appropriation with available federal funds and an increase of \$67,000 to reflect the availability of one-time carryover funds. LEAs will use these funds for services to improve instruction and achievement for children in rural and low-income schools by supporting activities such as teacher recruitment and retention, professional development, educational technology projects, and parental involvement activities.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, \$67,000 is provided in one-time carryover funds to support the existing program.

8. Item 6110-156-0890, Local Assistance, Adult Education Program (Issue 165).

It is requested that this item be ~~decreased~~ increased by ~~\$420,000~~ \$300,000 Federal Trust Fund to align the appropriation with available federal funds. The Adult Education and Family Literacy Act provides federal funds to supplement adult basic skill programs, high school completion programs, and programs that enable adults to become more employable, productive, and responsible citizens. Local programs provide specific instruction to adults in the areas of adult literacy, English as a second language, citizenship, vocational literacy, family literacy, elementary basic skills, high school basic skills, literacy for homeless adults, and literacy for incarcerated adults.

9. Item 6110-183-0890, Local Assistance, Safe and Drug Free Schools Program (Issues 648 and 649).

It is requested that this item be decreased by \$4,196,000 Federal Trust Fund, which includes a decrease of \$5,796,000 to align the appropriation with available federal funds and an increase of \$1.6 million to reflect the availability of one-time carryover funds. These funds will be used to support programs that prevent violence in and around schools and prevent the illegal use of alcohol, tobacco, and drugs.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, \$1,600,000 is provided in one-time carryover funds to support the existing program.

10. Item 6110-193-0890, Local Assistance, Mathematics and Science Partnership Program (Issues 084 and 085).

It is requested that this item be decreased by \$591,000 Federal Trust Fund, which includes a decrease of \$2,091,000 to align the appropriation with available federal funds and an increase of \$1.5 million to reflect the availability of one-time carryover funds. This program provides competitive grant awards to partnerships of low-performing schools and institutes of higher education to provide staff development and curriculum support for mathematics and science teachers.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, \$1,500,000 is provided in one-time carryover funds to support the California Mathematics and Science Partnership Program.

11. Item 6110-240-0890, Local Assistance, Advanced Placement Test Fee Waiver Program (Issue 650).

It is requested that this item be increased by \$561,000 Federal Trust Fund to align the appropriation with available federal funds. These funds will be used by LEAs to reduce Advanced Placement test fees for low-income students.

RECOMMENDATION: *Staff recommends* approval of the DOF April Letter proposals listed in items 1-11 above, including staff revisions highlighted for items 3, 6, and 8. The revisions to items 3 and 8 provide a correction to the April Letter. The revision to item 6 strikes new requirements for allocating funds for three federal

programs. All of the items above are considered technical adjustments, which align available federal funds with existing programs. No issues have been raised for any of these items.

OUTCOME: Approve staff recommendation. Vote: 3-0.

ISSUE 5. Federal Funds --Title I Set-Aside Funds & School Improvement Grants (6110-001-0001/0890 & 6110-134-0890)

DESCRIPTION: The Governor's January budget and April Finance Letter propose \$189.7 million in 2008-09 for improvement of schools and local education agencies (LEAs) in program improvement under the No Child Left Behind Act (NCLB). The Governor's proposals provide an additional \$142 million for school improvement programs above the level of funding currently provided in 2007-08. The Governor proposes to appropriate these funds – on a one-time basis – for 97 LEAs facing corrective action in 2007-08, an estimated 50 additional LEAs facing corrective action in 2008-09, and LEAs with schools in the 5th year of program improvement and beyond. The Governor's program improvement plan for LEAs facing corrective actions reflects the plan recently recommended by the California Department of Education, and approved by the State Board of Education.

BACKGROUND: The No Child Left Behind Act (NCLB) authorizes two programs that provide funding to states for schools and local education agencies (LEAs) to improve the teaching and learning of children failing, or most at-risk of failing, to meet the state academic standards. These programs include (1) Title I Set-Aside Funding for School Improvement, which allows states to utilize four percent of their Title I Basic Grants for school improvement; and (2) the new School Improvement Funding Grant.

GOVERNOR'S PROPOSALS: The Governor's January budget and April Finance Letter proposals provide an additional \$142 million for school improvement programs above the level of funding currently provided in 2007-08, as indicated by the table below. Of this amount, \$125.7 million is provided from ongoing federal grants and \$64 million is provided from one-time carryover funds.

Federal School Improvement Funding Sources <i>(In Thousands)</i>	One-Time	Ongoing	Total 2008-09
Title I Set-Aside Funds:			
2008 Title I Set-Aside		\$ 65,206	\$ 65,206
Carryover (reverts 08)	\$18,170		18,170
Carryover (reverts 09)	29,188		29,188
School Improvement Grant:			
2008 Improvement Grant		60,492	60,492
2007 Improvement Grant	16,620		16,620
Total	\$63,978	\$125,698	\$189,676

The Governor's proposals provide an additional \$142 million for school improvement programs above the level of funding currently provided in 2007-08.

The LAO has summarized the components of the Governor's budget proposals for utilizing the \$190 million in Title I school improvement funds available in 2008-09:

State School Improvement Activities <i>(In millions)</i>			
Expenditures	2007-08 Estimated	2008-09 Proposed	Description
Statewide Systems of School Support (S-4) (Set-Aside)	\$10	\$10	Funds 11 COE serving as Regional Offices of District and School Support (RSDSS) that provide technical assistance to PI LEAs and LEAs with schools in PI. (Sec. 52059)
School Corrective Action (Set-Aside)	20	0	Provides Title I II/USP state-monitored schools with \$75,000 (elementary and middle schools) to \$100,000 (high schools) for purposes of contracting with at SAIT and \$150 per-student to for implementation of corrective actions. (52055.54)
LEAs entering PI: Planning (Set-Aside)	17	17	Provides LEAs entering PI with \$50,000 base grant plus \$10,000 per Title I school to revise and implement LEA plan. (Sec. 52055.57)
PI LEAs entering Corrective Action (Carryover)	0	47	Provides 97 LEAs entering corrective action in 2007-08 with \$20.99 per pupil with \$50,000 for small districts. Provides 44 LEAs (Tier 1&2) an additional \$250,000 for DAITs. Sets aside \$2 million for state operations.
PI LEAs entering Corrective Action (Set-Aside)	0	38	Provides above funding rates to 50 LEAs expected to enter corrective actions in 2008-09.
LEAs w/ Schools in Program Improvement Year 5+	0	78	Competitive grants for districts with PI Year 5+ schools (104 districts with 304 PI Year 5+ schools eligible.) No budget detail available.
Total	\$47	\$190	

Governor's Corrective Action Plan for LEAs in the Third Year of Program Improvement

The Department of Education has identified 97 LEAs – 96 school districts and one county office of education – that are in their third year of program improvement and, under the provisions of NCLB, are facing corrective actions. The Governor recommends the following tiered approach for these LEAs in corrective action. This approach is intended to tie the strength of the corrective actions to the relative level of need faced by the LEA.

Tier	Sanction	Funding	Districts
Tier 1: Intensive Intervention	Implement a new curriculum, amend LEA Plan SBE-assigned DAIT Additional monitoring and reporting Possible additional corrective actions as determined by CDE and SBE	\$250,000 plus \$20.99 per-pupil	7 districts
Tier 2: Moderate Intervention	Implement a new curriculum, amend LEA Plan LEAs allowed to select DAIT in consultation with County Office	\$250,000 plus \$20.99 per-pupil	37 districts
Tier 3: Light Intervention	Implement a new curriculum, amend LEA Plan Access technical assistance to analyze LEA needs	\$20.99 per-pupil	45 districts
Other	Implement a new curriculum, amend LEA Plan Target student groups responsible for failure of LEA to make Adequate Yearly Progress (AYP) targets	\$20.99 per-pupil	8 districts

April Finance Letters:

1. 6110-001-0001/0890. State Operations, Federal School Improvement Grant Program (Issue 567). It is requested that this item be increased by \$378,000 federal Title I School Improvement Grant (SIG) funds for 4.0 positions to support the new SIG program. The SIG program will provide funds to LEAs with schools in program improvement or corrective action that demonstrate the greatest set of academic challenges and the greatest commitment to raising student achievement. These positions would establish a competitive grant process, review applications, award funds, and monitor progress. Expenditure of these funds is proposed to be contingent upon final approval of specific program criteria by the State Board of Education.

It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in this item, \$378,000 and 4.0 positions are provided to support workload for the federal School Improvement Grant (SIG) program. Expenditure of these funds is contingent upon approval of SIG local educational agency and school site selection and participation criteria by the State Board of Education at or after the May 2008 board meeting.

2. Item 6110-134-0890, Local Assistance, Title I Set Aside Funds.

Align Appropriation with Available Federal Funds. (Issue 564). It is requested that this item be decreased by \$10,794,000 federal Title I Set Aside funds to align the appropriation with available federal funds. LEAs will use these funds for services to improve low-income student academic performance.

2. Item 6110-134-0890, Local Assistance, Title I Set Aside Funds Establish the Federal Title I School Improvement Grant (Issue 566). It is also requested that Schedule (7) be added to appropriate ~~\$77,113,000~~ \$78,082,000 federal Title I School Improvement Grant (SIG) funds for grants to LEAs. Of this amount, \$16,620,000 reflects the availability of one-time carryover funds. The SIG program will provide funds to LEAs with schools in program improvement or corrective action that demonstrate the greatest set of academic challenges and the greatest commitment to raising student achievement. The department submitted an application and received approval from the U.S. Department of Education for the expenditure of these funds; however, approval of specific program criteria by the State Board of Education is still pending.

It is further requested that a new schedule and provisional language be added as follows to conform to this action:

(7) 10.30.004 – School Improvement Grant.....~~77,113,000~~ 78,082,000

X. The funds appropriated in Schedule (7) shall be available for requirements as specified in the federal No Child Left Behind Act of 2001 (20 U.S.C. Sec. 6303(g)) and are contingent upon approval of local educational agency and school site selection and participation criteria by the State Board of Education after April 1, 2008.

X. Of the funds appropriated in Schedule (7) of this item, \$16,620,000 is provided in one-time carryover funds to support the program.

3. Item 6110-134-0890, Local Assistance, Title I Set Aside Funds. Shift Funding from Schoolsite to Local Educational Agency Corrective Action Activities (Issue 571). It is also requested that \$20.0 million be shifted from Schedule (3) to Schedule ~~(5)~~ 6, (to eliminate funding for Immediate Intervention/Underperforming Schools Program (II/USP) corrective action activities and provide funding to LEAs for federal No Child Left Behind corrective action and technical assistance activities. Although the II/USP ended in 2004-05, a handful of schools have not exited the program and continue to

receive grants of \$150 per-pupil to implement improvement plans prepared by external evaluators. Instead, it is requested that these funds support the State Board of Education's action to impose corrective action and technical assistance activities on 97 LEAs that recently received federal No Child Left Behind (NCLB) corrective action status. This shift will: (1) eliminate funding for a program that has been replaced by other state and federal programs, (2) improve the nexus between NCLB funding and its requirements, and (3) establish baseline funding for current and future corrective action LEAs.

It is further requested that Provision (3) be deleted as follows to conform to this action:

~~“3. The funds appropriated in Schedule (3) shall be made available to provide \$150 per pupil pursuant to Section 52055.54 of the Education Code in a school that is managed in accordance with paragraph (3) of subdivision (b) of Section 52055.5 of the Education Code or that contracts with a school assistance and intervention team pursuant to subdivision (a) of Section 52055.51 of the Education Code.”~~

CDE ISSUES: The Governor’s proposal reflects the program improvement plan reflected by the California Department of Education (CDE) and adopted by the State Board of Education in March. CDE is concerned about the possible reversion of **\$18.2 million** in Title I Set-Aside Funds that must be spent by September 30, 2008, to avoid reversion.

LEGISLATIVE PROPOSALS:

SB 606 (Perata). Corrective Actions for Local Education Agencies (LEAs) in Program Improvement. This bill appropriates a total of \$47 million in federal Title I funds for a new program to address 97 LEAs that are in their third year Program Improvement under NCLB and facing corrective actions. Of this amount, \$45 million is allocated directly to LEAs; \$1.2 million is provided to CDE for state administration; and \$800,000 is provided for an independent evaluation. In addition, the bill:

- creates a uniform statutory process for the Superintendent to make recommendations on corrective actions for LEAS in program improvement,
- allows the State Board to retain its authority to approve or deny the Superintendent’s recommendations,
- includes the Superintendent’s recommendations in an annual report to the LAO, DOF, and the Legislature,
- limits LEAS from receiving more than one corrective action during a three year period,
- requires districts to be accessed and evaluated by a District Assistance and Intervention Team prior to receiving a trustee,
- delineates the role of a trustee as having stay and rescind authority only over areas that have been specified in the LEA’s self assessment,
- provides guidance for the Superintendent in developing criteria to measure LEA growth over the course of their participation, and

- creates an appeal process for LEAs that have been assigned a District Assistance and Intervention Team and the ability to terminate their contract if the DAIT is not performing their contractual obligations.

LAO ANALYSIS/RECOMMENDATIONS: In evaluating the Governor's proposal for addressing programs improvement for LEAs, the LAO generally supports investments in state/regional infrastructure activities to assist schools and LEAs; advocates for a coherent program improvement plan for schools and LEAs that base relative funding on relative need, i.e. a tiered approach. The LAO does not support direct funding for school sites.

COMMENTS: The Governor's proposed January budget and April Letter proposals for expending Title I Set-Aside Funds and School Improvement Grants for LEAs in program improvement requires both budget and policy consideration by the Legislature. Implementation of any new program will require legislation, and given the size and scope of current proposals, such legislation will benefit from policy committee review. On the funding side, it will be important for the Legislature to appropriate approximately \$18.2 million in federal Set-Aside Funds that the Department of Education estimates will revert if not expended by September 30, 2008. The Governor's proposal provides one-time funds for LEA corrective actions, which allows ongoing funds to be redirected to a new group of LEAs each year. However, the Legislature will need to make sure that carryover funds and ongoing funds available in 2008-09 are expended in a manner that allows options for providing funding for new groups of LEAs facing corrective action each year.

ISSUE 6. Federal Funds - Title VI – State Assessment Funding (6110-001-0001/0890 & 6110-113-0890)

DESCRIPTION: The Governor proposes to increase federal local assistance funds for statewide student assessments by \$3.9 million in 2008-09. This action is intended to offset the proposed reduction of \$9.3 million in General Funds, which is part of the Governor's Budget Balancing Reductions.

BACKGROUND: Federal Title VI funds are authorized under the No Child Left Behind Act. These funds are available to states to support the development of the additional state assessments and standards required by NCLB, or if the state has already developed standards and assessments, funds are available for the administration of those assessments or for other activities related to ensuring that the state's schools and local education agencies are accountable for results.

GOVERNOR'S PROPOSALS: The Governor's January budget and April Letter proposals propose a \$3.9 million increase to Title VI funds for state assessment programs. This includes a \$986,000 reduction to align the appropriation with available federal funds and an increase of \$4.9 million in one-time carryover funds. The Governor intends this increase as an offset to the proposed Budget Balancing Reduction of \$9.3 million in the General Fund state assessment budget item.

April Letter:

1. **Item 6110-113-0890, Local Assistance, Title VI Flexibility and Accountability (Issues 562 and 563).** It is requested that this item be increased by \$3,927,000 federal Title VI State Assessment funds, which includes a decrease of \$986,000 to Schedule (4) to align expenditure authority with available federal funds and an increase to Schedule (4) of \$4,913,000 to reflect the availability of one-time carryover funds. Title VI federal funds are used to develop and implement statewide testing programs such as the Statewide Testing and Reporting Program, the High School Exit Examination, and the English Language Development Test for K-12 public schools. It is further requested that provisional language be added as follows to conform to this action:

X. Of the funds appropriated in Schedule (4), \$4,913,000 is provided in one-time carryover funds to support the existing program.

COMMENTS: The Governor proposes an increase of \$3.9 million in Title VI federal funds for student assessments in 2008-09. The Governor also proposes a \$9.3 million reduction in General Funds for student assessments in 2008-09, as a part of his Budget Balancing Reductions. These one-time federal funds are intended by the Governor to partially offset the effects of the Governor's General Fund reduction in 2008-09. If the Subcommittee does not adopt the Governor's General Fund reductions, the state assessment program will be over-budgeted by \$3.9 million. These funds could be appropriated for other one-time purposes under Title VI, including a one-time offset for state General Fund assessment expenditures in 2008-09.

ISSUE 7: California Longitudinal Pupil Achievement Data System – LAO Proposal

DESCRIPTION: The Governor’s Budget proposes to spend **\$10.9 million** from various funds for the development and administration of the California Longitudinal Pupil Achievement Data System (CALPADS) in 2008-09. The Legislative Analyst’s Office (LAO) supports this level of funding for CALPADS, but recommends maximizing federal funds available for these expenditures in 2008-09. Specifically, the LAO recommends that the Legislature use **\$3.2 million** in federal Title VI funds in lieu of **\$3.2 million** in General Fund (non-Proposition 98) proposed by the Governor for CALPADS in 2008-09. The California Department of Education will provide an update of CALPADS implementation.

BACKGROUND: Current law, established by SB 1453 (2002) and SB 257 (2003), requires that CDE contract for the development of a statewide data system to collect, maintain, and report longitudinal student assessment and other data required to meet federal NCLB reporting requirements, to evaluate education programs, and to improve student achievement. This system is known as California Longitudinal Pupil Achievement System (CALPADS). Senate Bill 1453 and SB 257 identify five basic goals for the state’s longitudinal data system:

- To provide school districts and CDE access to data necessary to comply with federal NCLB reporting requirements;
- To improve evaluation of education progress and investments over time;
- To provide LEAs with information that can be used to improve pupil achievement;
- To provide an efficient, flexible, and secure means of maintaining longitudinal statewide pupil level data; and
- To promote good data management practices for pupil data systems and issues.

CALPADS is envisioned as the foundation of California's K-12 education data system. It will maintain longitudinal, individual-level data including student demographic, program participation, grade level, enrollment, course enrollment and completion, discipline, state assessment, teacher assignment, and other data required to meet state and federal reporting requirements. Education data will be linked longitudinally using a unique, non-personally identifiable Statewide Student Identifier.

CALPADS Implementation. A chronology of major activities related to the CALPADS project is displayed in the table below. On September 12, 2007, CDE submitted a Special Project Report (SPR) to the Department of Finance (DOF) for approval. The SPR provided the DOF with all updated cost estimates, the selected proposed solution, and all changes to the project since approval of the Feasibility Study Report (FSR). DOF approved the SPR in October, the Legislature was notified as required by Budget Control Section 11.0, and the contract was awarded in late December 2007. Work on the contract began in January 2008. According to CDE, CALPADS implementation is scheduled to begin in April 2009 and wrap-up in June 2010.

CDE has prepared the following update on CALPADS project and system development.

Project Development

Project Stage	Start	Completed	Approved/Released
Feasibility Study Report (FSR)	April 2004	August 2004	
FSR Submission 2	January 2005	April 2005	June 2005 – Conditional
Supplemental Report to FSR	June 2005	October 2005	November 2005
Request for Proposal (RFP)	December 2005	June 2006	September 2006
Final Bids Submission/Evaluation	April 2007	May 2007	June 2007
Final Bid Cost Opening		June 2007	
Special Project Report	July 2007	September 2007	November 2007
Section 11	November 2007	December 2007	December 2007
Contract Commences	January 2008		

System Development*

Project Stage	Start	Completed	Approved/Released
Phase 1: Project Initiation	January 2008	May 2008	
Phase 2: Design, Development, Conversion, Testing	April 2008	April 2009	
Phase 3: Pilot User Acceptance Test (UAT)	December 2008	July 2009	
Phase 4: System Implementation	April 2009	June 2010	
Phase 5: Warranty and Maintenance	July 2010	June 2011	
*Projected dates			

CALPADS Costs. The Special Project Report, approved by the Department of Finance in December 2007, provides an updated cost plan for CALPADS as presented below.

<i>Dollars in Millions)</i>	05-06	06-07	07-08	08-09	09-10	10-11	11-12	TOTAL
Cost Type:								
One-Time	.560	.675	4.8	9.1	8.9	.050	--	24.2
Ongoing	-	.043	.085	1.04	1.6	7.6	8.1	18.4
Total Budget	.560	.717	4.9	10.1	10.5	7.7	8.1	42.6
Fund Source:								
General Fund	-	-	1.9	9.4	10.2	7.5	8.0	36.9
Redirection	.438	.149	.149	.466	.387	.149	.149	1.9
Reimbursement	-	-	-	-	-	-	-	-
Federal Funds	.122	.568	.881	-	-	-	-	1.6
Special Funds	-	-	-	-	-	-	-	-
Grant Funds	-	-	2.0	.248	-	-	-	2.2
Other Funds	-	-	-	-	-	-	-	-
Total Budget	.560	.717	4.9	10.1	10.5	7.7	8.1	42.6

Source: October 12, 2007 CALPADS SPR (Special Project Report), Submission 2. Approved by Department of Finance in December 2008.

The 2005 Feasibility Study Report for CALPADS estimated total costs of approximately \$17.0 million for CALPADS project development and implementation. Pursuant to the Special Project Report, these costs -- plus the first warranty and maintenance years -- are now estimated at **\$42.6 million**. While the Special Project Report assumes that the General Fund will cover \$36.9 million of these costs, the Governor's 2008-09 budget proposal maximizes other funding sources and limits General Fund to \$3.2 million. The LAO makes further recommendations that would eliminate any need for General Funds in 2008-09. CDE will provide a full status report on the CALPADS implementation timetable, including an update on costs.

GOVERNOR'S BUDGET PROPOSAL: CALPADS funding is subject to appropriations approved as a part of the annual state budget. The Governor's budget proposes a total of **\$10.9 million** in state, federal and other funds for CALPADS in 2008-09. As summarized by the table below, the largest sources of funding include \$5.3 million from the Teleconnect Fund, \$3.2 million in state General Funds, \$1.9 million in federal funds, and \$.6 million in federal Institute of Education Sciences (IES) funds.

Item	GF	Title VI	IES	Tele-Connect Fund	Total 2008-09	Purpose
6110-001-0001	\$1,021,000				\$1,021,000	state ops
6110-001-0001	\$2,181,000				\$2,181,000	one-time purchases
6110-001-0349				\$5,336,000	\$5,336,000	vendor contract
6110-001-0890		\$1,768,000	\$606,000		\$2,374,000	state ops and other project costs
TOTAL	\$3,202,000	\$1,768,000	\$606,000	\$5,336,000	\$10,912,000	

LAO ANALYSIS/RECOMMENDATIONS:

The LAO recommends approval of the **\$10.9 million** in funding for CALPADS in 2008-09. LAO notes that this level of funding is consistent with the expenditure plan outlined in the CALPADS contract, which was signed in late December 2007.

However, the LAO recommends that the Legislature maximize available federal funds for CALPADS in 2008-09 in order to save state General Funds, given the state's current budget shortfall. Specifically, the LAO recommends that the Legislature approve the April Letter to increase this item by \$3.9 million and create a new Schedule (7) for this amount. Additionally, the LAO recommends provisional language clarifying that \$3.2 million of the amount in Schedule (7) is for use in 2008-09 and the remainder of the amount in this schedule is to be carried over for CALPADS in 2009-10.

The \$3.2 million in additional federal Title VI funds proposed by the LAO are available from two sources -- \$2.5 million in ongoing savings for the STAR programs (presented in

the previous agenda item) and \$700,000 in additional funds that are not yet scheduled in the Governor's Budget.

The LAO considers federal Title VI funds to be an appropriate funding source for CALPADS. As authorized under the No Child Left Behind Act, the Title VI program provides funding to states to support the development of the additional state assessments and standards required by NCLB, or if the state has already developed standards and assessments, funds are available for the administration of those assessments or for other activities related to ensuring that the state's schools and local education agencies are accountable for results.

COMMENTS/RECOMMENDATIONS:

Maximizing Federal Funds Good Idea. Staff supports the LAO recommendation to redirect available federal Title VI funds savings to CALPADS in order save state General Fund appropriations in 2008-09. In the face of the state's General Fund shortfall, it is important to maximize federal funds and other non-General Fund sources for CALPADS development and implementation over the next few years. If additional federal funds are needed to eliminate the \$3.2 million in General Fund appropriations proposed by the Governor, it may be possible to redirect additional, available Title VI carryover funds for CALPADS.

CALPADS –High Priority. It is important to keep CALPADS on track even in the midst of the state budget shortfall to avoid any further delays in implementation. The development of student data that can produce longitudinal student performance data, including student graduation and dropout data, is a high priority for the Legislature, as well as the Governor and the Superintendent of Public Instruction.

One-Year Dropout Data Available Soon. CDE has collected two years of fall enrollment data, which reflect Statewide Student Identifiers (SSDs). The department plans to release a one-year dropout rate using this new data by the end of April.

CDE Proposal of LEA Support: CDE continues to support new Proposition 98 funding to support LEA activities related to maintaining SSIDs, collecting and reporting student and teacher level data to CALPADS, and using CALPADS and local data for decision making to increase student achievement. In 2006-07, the Subcommittee provided \$15 million for this purpose as a part of the 2006-07 budget. These funds were eliminated as a part of final budget negotiations. In 2007-08, the Subcommittee provided \$65.0 million in one-time funds over a three-year period for LEA data support. This funding was also eliminated in final budget actions.

ISSUE 8: Statewide Testing and Reporting System -- LAO Proposal (Item 6110-113-0001 & 6110-113-0890)

DESCRIPTION: The Legislative Analyst's Office (LAO) recommends that the Legislature eliminate the norm-referenced portion of the Standardized Testing and Reporting (STAR) program for a total savings of \$2.3 million 2008-09 and \$2.5 million in 2009-10 and beyond.

BACKGROUND: The 2007-08 budget provides \$117 million in state and federal funds to the Department of Education for a number of statewide student assessment programs, including the STAR program. (Attachment B provides a full listing and description of each of these assessments.) These funds are appropriated through the annual budget for the purpose of (1) reimbursing school districts for their local costs of administering the tests, and (2) paying for the statewide costs of developing and maintaining these tests.

The STAR program was created by legislation passed in 1997. In 2004, the STAR program was reauthorized until July 1, 2011, for students in grades 3-11 and until June 30, 2007, for 2nd grade students. SB 80 (Committee on Budget and Fiscal Review) continued the 2nd grade test as a part of the overall STAR program until June 30, 2011.

The two most commonly administered tests in the STAR program are the California Standards Tests (CSTs) --a standards-aligned test -- and the California Achievement Test Sixth Edition Survey (CAT/6 Survey) -- a norm-referenced test. Under the standards aligned test (CST), students in grades 2-11 take at least two tests each year in math and English Language Arts. In addition, students in grades 3 and 7 take the national norm-referenced test (CAT/6 Survey) in both math and English Language Arts.

The STAR program also includes two tests for English learners -- the Standards-based Tests in Spanish (STS), which is a standards based test for students in grades 2-7, and the Aprenda 3, a norm-referenced test for students in grades 8-11. In addition, the STAR program includes two tests for students with disabilities -- the California Modified Assessment (CMA) and the California Alternate Performance Assessment (CAPA).

GOVERNOR'S BUDGET: The Governor's Budget proposes to continue statewide student assessment programs -- including the STAR program -- in 2008-09. The Governor's Budget proposes a total of \$107.4 million for these programs in 2008-09. Of this amount, \$31.3 million is provided from federal Title VI funds and \$76.1 million is provided from state General Funds (Proposition 98). The \$76.1 million in General Funds reflects a \$9.3 million unallocated reduction proposed as a part of the Governor's Budget Balancing Reductions in 2008-09.

Of the \$107.4 million for all statewide student assessments, the Governor proposes a total of \$70.7 million for the STAR program in 2008-09. This amount includes \$8.6 million in federal Title VI funds and approximately \$62.3 million in state General Funds. (The General Fund amount does not reflect the unallocated reduction for all student assessments proposed by the Governor in 2008-09.)

LAO ANALYSIS/RECOMMENDATIONS: The LAO believes that the norm-referenced test no longer serves a critical statewide purpose. Norm-referenced tests are not aligned to our state's curriculum standards. While the STAR program originally included only norm-referenced tests for students in grades 2-11, in 2004-05, the STAR norm referenced test was scaled back to grades 3 and 7. Since the early 2000s, the STAR program has relied upon the standards-based tests, which are a better measure of student progress per the LAO.

The LAO notes concerns about losing a norm-referenced test that provides information on how well California students compare to other states. However, the LAO suggests that the federally sponsored National Assessment of Educational Progress (NAEP) – provides comparisons to national standards. The NAEP assesses a sample of 4th and 8th grade students in each state, and includes reports for demographic subgroups including English learners and students with disabilities.

For these reasons, the LAO recommends eliminating the STAR norm-reference test currently administered to students in grades 3 and 7 in California. The LAO believes this action will save the state \$2.5 million in 2008-09. In terms of testing time, the LAO estimates that this action will save 2.5 hours of student testing time in 3rd grade and 3.0 hours in the in 7th grade. According to the LAO, this would reduce student's testing time by approximately 30 percent for most students in 3rd and 7th grades.

CDE Savings Estimates: The total costs for the norm-referenced test are approximately \$2.5 million in 2007-08. If the test were eliminated, CDE has indicated that not all of this amount could be saved in 2008-09. According to CDE, an estimated \$200,000 in contract costs would need to continue in 2008-09 only. This translates into total savings of \$2.3 million in 2008-09 and \$2.5 million in 2009-10 and beyond.

COMMENTS/RECOMMENDATIONS: Staff supports the LAO's recommendation to eliminate the norm-referenced test, currently administered in grades 3 and 7, as a part of the STAR program effective in 2008-09. This action will result in savings of \$2.3 in 2008-09 and \$2.5 million in 2009-10 and beyond. In addition, the LAO estimates that this action will save 2.5 hours of student testing time in 3rd grade and 3.0 hours in the 7th grade – an estimated 30 percent reduction in testing time for these students.

In 2004-05 the Subcommittee voted to scale back the norm-referenced test from grades 2-11 to grades 3 and 7 only. This action recognized the declining value of the norm-referenced tests as the standards aligned assessments became fully implemented, but retained assessments for two grades in order to continue some national comparisons. Since that time, the state has come to rely on the standards-based tests even more, as measured its weights within the STAR program. In addition, the NAEP tests provide data that compares California students to nationally-normed standards. While NAEP only tests a sample of California students annually, it provides subgroup data for all the demographic subgroups included in California's norm-referenced test.

ISSUE 9: Education Mandates –Annual Payments (6110-295-0001)

DESCRIPTION: The Governor proposes to continue the practice of deferring payments for annual education program mandate claims in 2008-09. This practice arose in recent years as a means to achieve short-term budget savings. The annual cost of education mandates is estimated at approximately **\$180 million** for K-12 schools. The LAO recommends that the Legislature fully fund the estimated costs of state-mandated local programs in 2008-09 because these costs are part of the education funding base for K-12 education.

BACKGROUND: Beginning in 2001-02, funding for education mandate programs costs basically stopped, and payments were deferred to future years or suspended. This action was taken to reduce expenditures given the fiscal circumstances that year and in subsequent years. By deferring reimbursement of mandate claims, the state does not eliminate obligations. The state must eventually pay all claims, once audited and approved. The state must also pay interest on overdue claims, based upon the rate established for the Pooled Money Investment Account. The LAO estimates that the state paid \$48.6 million in interest on the unpaid mandates through 2002-03, the latest figure available.

Governor's Budget Proposal: The Governor proposes to defer payments for the annual costs of 38 mandated education programs for K-12 school districts and county offices of education in 2007-08. The Governor retains a total of \$38,000, (or \$1,000 for each of these mandates), however the Governor proposes to defer the remaining estimated \$180 million in annual payments for these mandates in 2008-09. This continues the practice in recent years of deferring or suspending annual mandate payments to achieve short term budget savings.

The Governor also proposes to continue suspension of four K-12 education mandate programs in 2007-08, including: School Bus Safety I & II; Law Enforcement Sexual Harassment Training; County Treasury Withdrawals, and Grand Jury Proceedings.

LAO Mandated Cost Estimates: According to the LAO, the outstanding mandate balance for K-12 education will total **\$430 million** by the end of 2008-09. This amount reflects unpaid claims from the deferral of annual mandate payments in prior years and the \$180 million in 2008-09.

In addition, school districts have submitted claims of \$560 million for four mandates that are now in the approval process with the Commission on State Mandates. In total, the LAO estimates that school districts would have almost \$1 billion in unpaid mandate claims on file with the state at the end of 2008-09.

LAO Recommendation: The LAO recommends that the Legislature fully fund the annual estimated costs of state-mandated local costs in the 2008-09. Under current law, this requires the Legislature to add an additional \$180 million for the ongoing costs of reimbursable state-mandated local programs. Under the Governor's proposal, which

changes the timing of mandate payments to reflect the amount claimed by districts in 2006-07, the LAO recommendation would add an additional \$165 million in 2008-09.

In most previous analyses, the LAO has consistently recommended restoration of funding for annual, ongoing education program mandates in order to reduce “education credit card” debt.

Governor’s Local Mandate Reform Proposal: The Governor’s budget proposes significant reforms as a part of the 2007-08 budget that, according to the Department of Finance, apply to K-12 education and community colleges, as well as other local government mandates. According to the LAO, the Governor’s proposal would change the process the state utilizes to (1) determine whether a reimbursable mandate exists and (2) specify the method for determining reimbursement. The LAO believes that the Governor’s mandate reform proposal provides a good starting point for discussion. In their recommendation, the LAO offers a similar proposal for the Legislature to consider, which is outlined in the LAO’s Perspective and Issues publication.

Comments: Staff agrees with the LAO recommendation in concept to fund \$180 million in annual K-12 mandate payments in 2008-09, because failure to make these payments contributes to future education debt that the state must pay with interest. While the Governor’s budget provides cash savings in 2008-09, the costs do not go away. Obligations will build and place a call on new education funds when the economy recovers. For this reason, staff recommends that the Subcommittee give high priority to paying for the annual costs of state-mandated local programs when it takes final actions following May Revise.

ISSUE 10: Education Mandates – New Mandates

DESCRIPTION: In fulfillment of their statutory responsibility, the LAO has reviewed two new education mandates included in the Commission on State Mandates annual report of new mandates. These two mandates include: teacher assessments pursuant to the Stull Act and the California High School Exit Exam. The LAO does not recommend approval of these new mandates, but makes other recommendations related to these new mandates. These two mandates are not listed in the Governor's 2008-09 annual mandate claims budget item.

BACKGROUND: The LAO was given responsibility for reviewing and commenting on newly identified mandates pursuant to Chapter 1124, Statutes of 2002 (AB 3000 - Committee on Budget). Pursuant to this responsibility, the LAO has reviewed two new education mandates that were approved by the Commission on State Mandates in their 2007 report of newly identified mandates.

These two new mandates, as summarized below, include: teacher assessments pursuant to the Stull Act and the California High School Exit Exam (CAHSEE). The Commission on State Mandates estimates costs for these mandates would total \$200.2 million through 2007-08. Annual costs for these mandates are estimated by the Department of Finance to total \$29.7 million beginning in 2008-09.

New Mandates Approved by the Commission on State Mandates in 2007 <i>(In Millions)</i>			
Mandate	Requirement	Accrued Costs Through 2007-08	Estimated Cost in 2008-09
Teacher Evaluations – Stull Act	Evaluate teacher performance in specific areas.	\$165.8	\$22.0
California High School Exit Exam (CAHSEE)	Administer state exam to students beginning in 10 th grade.	37.4	7.7
Totals		\$200.2	\$29.7

LAO ANALYSIS/RECOMMENDATIONS: The LAO has reviewed the Stull Act teacher evaluation and CAHSEE mandates approved by the Commission on State Mandates. The LAO has provided analysis and recommendations for each of these new mandates in their 2008-09 Budget Analysis. In summary, the LAO does not recommend approval of these mandates at this time. Instead, the LAO recommends a number of other actions to the Legislature related to these new mandates, including the following:

Recognize Offsetting Savings for Stull Act Teacher Evaluations. The LAO recommends the Legislature adopt trailer bill language requesting the Commission on State Mandates to review its decision on the Stull Act to identify possible offsetting savings.

Reconsider the Need for Stull Act Teacher Evaluation Mandates. The LAO recommends the Legislature review the need for the Stull Act mandates as part of a comprehensive review of K-12 teacher policies.

Develop Unit Costs for New Testing Mandates. The LAO recommends the Legislature add trailer bill language directing the Commission on State mandates to reconsider the parameters and guidelines for the Standardized Testing and Reporting and California High School Exit Examination mandates. The LAO also recommends language directing the State Controller to propose a reasonable reimbursement methodology for the two mandates based on “cost profiles” of a representative sample of school districts.

COMMENTS:

ATTACHMENT A

U.S. Department of Education, Grants to States, California FFY 2001-2009

<http://www.ed.gov/about/overview/budget/statetables/09stbystate.pdf>

ATTACHMENT B

California Assessment System 2007–08, California Department of Education

<http://www.cde.ca.gov/ta/tg/sa/documents/calassesssys0708.pdf>